

McGill University
ECON 416: Topics in Economic Development 2
Winter 2024

Instructor Contact Information

Prof. Francesco Amodio
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Office hours: Friday 10:30 am to 12:00 pm

Regular Classes

Wednesday and Friday 1:05 pm to 2:25 pm
Room: ENGMC 12

Prerequisites

ECON 227/230 or ECON 250/257 or permission of the instructor.

Course Description and Goals

Productivity growth in the private sector is key for economic development. There is astounding variation in firms' productivity and performance both across and within countries. Firms in low and middle-income countries are typically less productive than their counterparts in the US, Canada, or Europe. Closing this gap is regarded as crucial to foster growth and alleviate poverty. Where do these productivity differences come from? What does "doing business" mean in the poorest areas of the world? What are the constraints faced by firms, entrepreneurs, and managers in poor countries? What policies are effective in relaxing these constraints, making markets work and fostering private sector development in these economies? What is the role of globalization and international trade? This course aims to answer these questions. The objective is to provide students with an understanding of the current topics of economic research and policy in the large and expanding field of productivity, entrepreneurship, and development.

Evaluation

Your final grade for this course will be based on the following:

30% - First Midterm Quiz. In the 6th week of lectures, you will be tested on the material covered up to that point. The test will include both multiple-choice and open-ended questions. It will be administered during lecture time.

30% - Second Midterm Quiz. In the 12th week of lectures, you will be tested on the material covered from week 8 up to that point. Format will be as above.

If you miss any of the two Midterms, you will have to take **a separate test** on the 14th week of lectures during extra time, and you will be tested on **ALL** the material covered in class from the very beginning.

40% - Research Project and Presentation. This part of your grade will be based on the elaboration of an original research project. You will write and discuss a detailed project to be implemented in the field. You will work in groups of 5 members.

In your project, you are asked to (i) identify and document a relevant constraint for private sector development or the operation of a single firm or sector in a low-income country, (ii) propose an intervention aimed to ease or remove the constraint you have identified, and (iii) propose an empirical strategy for the evaluation of your intervention. You should think about yourself as being a team of government advisors. You need to convince the government that you have identified a relevant problem, that the intervention you propose has the potential of solving or at least mitigating it, and that you have a plan for credible impact evaluation. Grading of the project will be based on the following:

- **10% - Proposal.** You will be asked to hand in a one-page proposal of your research project. I will give you feedback on the proposal, and we will settle on a specific topic.
- **10% - Presentation.** Each group will give a presentation in front of the class during one of the last lectures. In that occasion we will also discuss the project all together with your colleagues. Each one of the group members will be required to talk during the presentation for a fair amount of time and content. You will be individually graded accordingly.
- **20% - Final Paper.** You will be asked to hand in a final paper (15 pages maximum) describing your project in detail.

In the event of extraordinary circumstances beyond the University's control, the content and/or evaluation scheme in this course is subject to change.

Calendar

Please have clear the following key dates:

- **Mon, February 5**, Proposal of group composition to be sent by e-mail
- **Wed, February 7**, First Midterm Quiz
- **Mon, February 26**, Research project one-page proposal to be sent by e-mail
- **Fri, March 1**, Confirmation of topic
- **Wed, March 20**, Presentation schedule out
- **Wed, March 27**, Second Midterm Quiz
- **April 3, 5, 12**, Presentations (15 min each + 5 min discussion)
- **Fri, April 23**, deadline to send the final paper

Note: no class on March 6 and 8 (Reading Week), March 29 (Good Friday) and April 10

Math and Econometrics

This course has a strong empirical focus. When discussing theory, intuition will be privileged over formal math unless necessary. As for empirics, lectures 2 and 3 are devoted to a review of the logic of causal inference in the framework of linear regression analysis. A clear understanding is essential to follow the papers' discussion throughout the rest of the course.

Preliminary Course Outline and Readings

Lectures will be mainly based on academic papers. Several chapters of the following books will be used to introduce you to several topics during the course:

- Bardhan, P. and C. Udry (1999), *Development Microeconomics*, Oxford University Press.
- Angrist, J. D., and J.-S. Pischke (2009), *Mostly Harmless Econometrics: An Empiricist's Companion*, Princeton University Press.

- THE ASTERISK (*) INDICATES REQUIRED READING -

Other readings are optional, but STRONGLY recommended.

January 5: Introduction

* Syverson, C. (2011), "What determines productivity?" *Journal of Economic Literature*, 49(2): 326-65. ([link](#))

* Tybout, J. (2000), "Manufacturing firms in developing countries: How well do they do, and why?" *Journal of Economic Literature*, 38: 11-44. ([link](#))

Krugman, P. (1994), "The fall and rise of development economics," mimeo. ([link](#))

January 10-12: Empirical Methods for Micro Development

* Angrist-Pischke, Chapter 2, 3.1, 3.2, 4.1, 5.1, 5.2

* Duflo, E., Glennerster, R. and Kremer, M., (2008), "Using Randomization in Development Economics Research: A Toolkit," *Handbook of Development Economics*, Elsevier. ([link](#))

Roland, G. (2014), "Development Economics," Pearson – Econometric Appendix

Banerjee, A. V. and Duflo, E. (2009), "The experimental approach to development economics," *Annual Review of Economics*, 1: 151-178. ([link](#))

Deaton, A. (2010), "Instruments, randomization, and learning about development," *Journal of Economic Literature*, 48(2): 424-455. ([link](#))

January 17-19: Credit Constraints

* Bardhan-Udry, Chapter 7.

* de Mel, S., McKenzie, D. J., and Woodruff, C. (2008), "Returns to capital in microenterprises: Evidence from a field experiment," *Quarterly Journal of Economics*, 123(4): 1329-1372. ([link](#))

* Karlan, D. and Zinman, J. (2009), "Observing unobservables: Identifying information asymmetries with a consumer credit field experiment," *Econometrica*, 77(6): 1993-2008. ([link](#))

* Banerjee, A. and Duflo, E. (2014), “Do firms want to borrow more? Testing credit constraints using a directed lending program,” *Review of Economic Studies*, 81: 572-607. ([link](#))

Field, E., Pande, R., Papp, J. and N. Rigol (2013). “Does the Classic Microfinance Model Discourage Entrepreneurship among the Poor? Experimental Evidence from India,” *American Economic Review*, 103(6): 2196-2226. ([link](#))

January 24-26: Labor Markets

* Bardhan-Udry, Chapters 4-5.

* de Mel, Suresh, David McKenzie, and Christopher Woodruff. 2019. "Labor Drops: Experimental Evidence on the Return to Additional Labor in Microenterprises." *American Economic Journal: Applied Economics*, 11 (1): 202-35 ([link](#)).

* Hjort, J. (2014), “Ethnic Divisions and Production in Firms,” *Quarterly Journal of Economics*, 129(4): 1899-1946. ([link](#))

Donovan, K., W. Lu, and T. Schoellman (2023). Labor market dynamics and development. *Quarterly Journal of Economics*, 138(4): 2287 - 2325. ([link](#))

McCasland, Jamie and Hardy, Morgan, Are Small Firms Labor Constrained? Experimental Evidence from Ghana ([link](#)).

Amodio, F. and N. de Roux (2022), “Measuring Labor Market Power in Developing Countries: Evidence from Colombian Plants,” *Journal of Labor Economics*, forthcoming.

Amodio, F., Medina, P. and M. Morlacco (2023), “Labor Market Power, Self-Employment, and Development,” mimeo.

Banerjee, Abhijit V. and Karlan, Dean and Trachtman, Hannah and Udry, Christopher, Does Poverty Change Labor Supply? Evidence from Multiple Income Effects and 115,579 Bags. Global Poverty Research Lab Working Paper No. 20-104 ([link](#)).

Blattman, C. and S. Dercon (2018), “The Impacts of Industrial and Entrepreneurial Work on Income and Health: Experimental Evidence from Ethiopia.” *American Economic Journal: Applied Economics*, 10 (3): 1-38. ([link](#))

January 31 - February 2: Technology Adoption

(Research Project group members to be sent by e-mail no later than Monday, February 5)

* Bardhan-Udry, Chapter 12.

* Foster, A. D. and Rosenzweig, M. R. (1995), “Learning by doing and learning from others: Human capital and technical change in agriculture,” *Journal of Political Economy*, 103: 1176-1209. ([link](#))

* Conley, T. and Udry, C. (2010), "Learning about a new technology: Pineapple in Ghana", *American Economic Review*, 100(1): 35-69. ([link](#))

* Atkin, D., Chaudhry, A., Chaudry, S., Khandelwal, A. K., and Verhoogen, E. (2015), "Organizational barriers to technology adoption: Evidence from soccer-ball producers in Pakistan," *Quarterly Journal of Economics*, forthcoming. ([link](#))

* Bassi, V., Muoio, R., Porzio, T., Sen, R. and E. Tugume (2022), "Achieving Scale Collectively," *Econometrica*, 90(6): 2937-2978. ([link](#))

Verhoogen, E. (2020), "Firm-level upgrading in developing countries," CDEP-CGEG WP No. 83 ([link](#)).

Bandiera, O. and Rasul, I. (2006), "Social networks and technology adoption in Northern Mozambique," *The Economic Journal*, 116(514): 869-902. ([link](#))

Amodio, F. and M. A. Martinez-Carrasco (2023), "Workplace Incentives and Organizational Learning," *Journal of Labor Economics*, 41(2), 453-478. ([link](#))

February 7: First Midterm

February 9-14: Management and Business Literacy

* Bloom, N., and J. Van Reenen (2010), "Why Do Management Practices Differ across Firms and Countries?" *Journal of Economic Perspectives*, 24(1): 203-24. ([link](#))

* Bloom, N., B. Eifert, A. Mahajan, D. McKenzie, and J. Roberts (2013), "Does Management Matter? Evidence from India," *Quarterly Journal of Economics*, 128(1): 1-51. ([link](#))

* McKenzie, D., and C. M. Woodruff (2014), "What are we learning from business training and entrepreneurship evaluations around the developing world?" *World Bank Research Observer*. ([link](#))

* Drexler, A., G. Fischer, and A. Schoar (2014), "Keeping it Simple: Financial Literacy and Rules of Thumb," *American Economic Journal: Applied Economics*, 6(2): 1-31. ([link](#))

Brooks, Wyatt, Kevin Donovan, and Terence R. Johnson. 2018. "Mentors or Teachers? Microenterprise Training in Kenya." *American Economic Journal: Applied Economics*, 10 (4): 196-221 ([link](#)).

Calderon-Guemez, G., Cunha, J., and De Giorgi, G. (2013), "Business Literacy and Development: Evidence from a Randomized Trial in Rural Mexico," *NBER Working Paper No. 19740*. ([link](#))

February 16-21: Institutions, Law Enforcement and Corruption

(Research Project one-page proposal to be sent by e-mail no later than Monday, February 26)

* Bardhan-Udry, Chapter 17.

* Svensson, J. (2005), “Eight questions about Corruption,” *Journal of Economic Perspectives*, 19 (5): 19-42. ([link](#))

* Fisman, R. (2001), “Estimating the Value of Political Connections,” *American Economic Review*, 91(4): 1095-1102. ([link](#))

* Fisman, R. and J. Svensson (2007), “Are corruption and taxation really harmful to growth? Firm level evidence,” *Journal of Development Economics*, 83: 63-75. ([link](#))

* Chemin, M. (2012), “Does Court Speed Shape Economic Activity? Evidence from a Court Reform in India,” *Journal of Law, Economics and Organizations*, 28(3): 460-485. ([link](#))

Ponticelli, J. and L. Alencar (2015), “Court Enforcement, Bank Loans and Firm Investment: Evidence from a Bankruptcy Reform in Brazil,” *Quarterly Journal of Economics*, 131(3): 1365-1413. ([link](#))

February 23-28: Reputation and Relational Contracts

* McMillan, J. and C. Woodruff (1999) “Interfirm Relationships and Informal Credit in Vietnam,” *Quarterly Journal of Economics*, 114: 1285-1320. ([link](#))

* Macchiavello, R. and A. Morjaria (2021). “Competition and Relational Contracts in the Rwanda Coffee Chain.” *Quarterly Journal of Economics*, 136(2): 1089–1143. ([link](#))

* Macchiavello, R. and A. Morjaria (2015), “The Value of Relationships: Evidence from a Supply Shock to Kenyan Rose Exports,” *American Economic Review*, forthcoming. ([link](#))

Macchiavello, R. (2022). “Relational Contracts and Development.” *Annual Review of Economics*, 14(1): 337-362. ([link](#))

Banerjee, A. and E. Duflo (2000) “Reputation Effects and the Limits of Contracting: A Study of the Indian Software Industry,” *Quarterly Journal of Economics*, 115: 989-1017. ([link](#))

March 1: Topic Discussion and Confirmation

(Reading week March 4 to 8)

March 13-15: Trade and Productivity

* Pavcnik, N. (2002), “Trade liberalization, exit and productivity improvements: Evidence from Chilean plants,” *Review of Economic Studies*, 69: 245-276. ([link](#))

* Topalova, P. and A. Khandelwal (2011), “Trade Liberalization and Firm Productivity: The Case of India,” *The Review of Economics and Statistics*, 93 (3): 995-1009. ([link](#))

* Atkin, D., Khandelwal, A. and A. Osman (2017), “Exporting and Firm Performance: Evidence from a Randomized Experiment,” *Quarterly Journal of Economics*, 132 (2): 551-615. ([link](#))

Goldberg, P., Khandelwal, A., Pavcnik, N., and P. Topalova (2010), “Imported Intermediate Inputs and Domestic Product Growth: Evidence from India,” *Quarterly Journal of Economics*, 125 (4): 1727-1767. ([link](#))

Atkin, D. and A. Khandelwal (2020), “How Distortions Alter the Impacts of International Trade in Developing Countries,” *Annual Review of Economics*, 12: 213-238. ([link](#))

Fiorini, M., Sanfilippo, M. and A. Sundaram (2021). “Trade Liberalization, Roads and Firm Productivity.” *Journal of Development Economics*, 153: 102712. ([link](#))

Amodio, F., Baccini, L., and Di Maio, M. (2021), “Security, Trade, and Political Violence,” *Journal of the European Economic Association*, 19(1): 1-37. ([link](#))

March 20-22: Misallocation

(Research Project presentation schedule out on March 20)

* Hsieh, C. T., & Klenow, P. J. (2009), “Misallocation and Manufacturing TFP in China and India,” *Quarterly Journal of Economics*, 124(4): 1403-1448. ([link](#))

* Banerjee, A. and Munshi, K. (2004), “How efficiently is capital allocated? Evidence from the knitted garment industry in Tirupur,” *Review of Economics Studies*, 71: 19-42. ([link](#))

* Amodio, F. and M. Di Maio (2017), “Making Do With What You Have: Conflict, Input misallocation and Firm Performance,” *The Economic Journal*, forthcoming. ([link](#))

Bau, N. and A. Matray (2022), “Misallocation and Capital Market Integration: Evidence from India,” *Econometrica*, forthcoming. ([link](#))

March 27: Second Midterm

April 3, 5 and 12: Class Presentations

(No class on April 10, final paper to be sent by email no later than April 23)

My E-mail Policy

I will try to reply to your e-mail within 48 hours. However, this will not always be possible. Also, please keep the e-mails short and simple.

- Consider e-mailing your TA first. I reserve the right to forward them your e-mails whenever I find appropriate to do so.
- Short e-mails to which I can answer ‘yes’ or ‘no’ will be answered more quickly.

- For questions on the content of the course, please come to my office hours, or the TA's office hours.
- For administrative questions, please refer to this detailed syllabus.

My Office Hours

My office hours and sometimes lectures may be cancelled and rescheduled in some cases. I will make sure to announce this to the class.

Academic Policies

Academic Integrity: McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures.

Language of Submission: In accord with McGill University's Charter of Students' Rights, students in this course have the right to submit in English or in French any written work that is to be graded.

Extraordinary Circumstances: In the event of extraordinary circumstances beyond the University's control, the content and/or evaluation scheme in this course is subject to change.

Copyright: All slides, video recordings, lecture notes, etc. remain the instructor's intellectual property. As such, you may use these only for your own learning (and research, with proper referencing/citation) ends. You are not permitted to disseminate or share these materials; doing so may violate the instructor's intellectual property rights and could be cause for disciplinary action.

Indigenous Land Statement: McGill University is on land which has long served as a site of meeting and exchange amongst Indigenous peoples, including the Haudenosaunee and Anishinabeg nations. We acknowledge and thank the diverse Indigenous people whose footsteps have marked this territory on which peoples of the world now gather.

Disability: If you have a disability, please contact the instructor to arrange a time to discuss your situation. It would be helpful if you contact the Office for Students with Disabilities at 398-6009 before you do this.

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